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ARIZONA CORPORATION COMMISSION

October 18, 2004

The Honorable Marilyn Jarrett
Co-Chair, Task Force on Arsenic Standards Implementation
The Arizona Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable Joe Hart
Co-Chair, Task Force on Arsenic Standards Implementation
The Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Dear Senator Jarrett and Representative Hart:

Thank you for agreeing to co-chair the Task Force on Arsenic Standards Implementation and your leadership at the public meeting on September 27, 2004. I believe the meeting achieved its objective in shedding light on this serious public health issue that will affect hundreds of thousands water customers throughout Arizona. The compliance costs borne by Arizona water customers will be sizeable.

In October 2001, the U.S. Environmental Protection Agency (EPA) amended the Safe Drinking Act by reducing the Maximum Contaminant Level (MCL) for arsenic from 50 to 10 parts per billion. Every public water system in the nation is required to comply with the MCL by January 23, 2006. Unlike most of the country, Arizona and other western states face unique challenges in achieving this stricter standard because arsenic is naturally occurring in the soil. In addition, many Arizona communities are served by private, rather than municipal, water providers. The Corporation Commission is charged with the constitutional responsibility of regulating the rates and charges for public service corporations, which in this case include private water companies.

The EPA Rule is a substantial, unfunded mandate on 308 small water systems and their 340,000 customers across Arizona. Compliance costs are estimated at \$110 million. The Corporation Commission regulates 108 systems of the total number affected by EPA's change to the Clean Water Act. Many of these small water companies lack the financial means to construct or lease the needed arsenic treatment systems. Because these water systems generally have a small customer base, any capital expenditure for environmental compliance will have a dramatic effect on rates. In the case of arsenic compliance, any rate increase would result in the doubling or tripling of customers' monthly water bills. That effect would be especially devastating to elderly people living on retirement savings or low-income families.

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Time and money are critical roadblocks to success. In May 2004, I traveled to Washington, DC to meet with our congressional delegation about this issue. I specifically asked for a \$110 million appropriation to resolve the problem entirely. Because of its own budgetary challenges, however, it is unlikely that Congress will rescue us from this federal mandate.

Through my own inquiries, I have found that very little funding is available via federal agencies. Therefore, obtaining financial assistance from the state is critically needed. Without it, water may become unaffordable for many Arizonans, or many private water companies could go bankrupt, forcing their customers to seek alternative sources of water, including sinking wells in arsenic-contaminated groundwater.

The Corporation Commission is doing its part to alleviate the rate impact on water customers. For example, Commissioners recently voted unanimously to expand the service territory of Mountain Glen Water Company, which serves 300 customers in Pinedale, Linden and Clay Springs. Mountain Glen's wells exceed the allowable MCL for arsenic. Under a "worst-case scenario," the utility's customers could have faced a monthly surcharge of \$22.66 per month to fund \$786,000 of arsenic treatment equipment to comply with new standard. Expanding the service territory may now allow Mountain Glen to drill a new well in area with very low levels of arsenic at a cost less than \$40,000.

Like you, I am concerned about the health, safety and welfare of our citizens. The EPA's deadline for compliance is rapidly approaching. I know you will do your best to find the vital funding so that Arizona's small water companies can provide safe water to their customers. Arizonans do not deserve anything less.

Thank you for your consideration on this important matter.

Very truly yours,

A handwritten signature in black ink, appearing to read "JH Miller", with a stylized, flowing script.

Jeff Hatch-Miller
Commissioner, Arizona Corporation Commission